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American Banker
The Daily Financial S

150222000015 8/15/05 C11
CONGRESSIONAL INFOR SREV SRI
ACQUIS EDITOR SRI
4520 E. WEST HIGHWAY
BETHESDA MD 20814

VOL. CLI NO. 246 Tuesday, December 16, 1986 151st Year

Chemical to Acquire Texas Commerce

By BART FRAUST
and JOHN P. FORDE

NEW YORK — Chemical New York Corp. said Monday it will acquire Texas Commerce Bancshares Inc., Houston, in a deal valued by Chemical at $1.19 billion in cash and securities. Using Chemical's price estimate, the deal is the largest U.S. bank merger ever in terms of total purchase price, surpassing the $1.08 billion that Wells Fargo & Co. paid to acquire Crocker National Corp. earlier this year.

In a unique aspect of the transaction, about $300 million in nonperforming Texas Commerce assets, one-third of total nonperformers, will be transferred to a new bank whose stock will be spun off to current Texas Commerce shareholders on a pro rata basis.

In terms of size, the $18.9 billion-asset Texas Commerce is the second-largest domestic banking organization to be acquired by another U.S. banking company. Crocker had $19.2 billion in assets at the time its deal with Wells Fargo was announced. The acquisition will place the $56 billion-asset Chemical in a virtual tie with J.P. Morgan & Co. as the nation's fourth-largest bank holding company, based on Sept. 30 rankings. As of that date, Chemical ranked seventh.

If First Interstate Bancorp succeeds in its attempt to acquire BankAmerica Corp., it would surpass both the Chemical-Texas Commerce and the Wells-Crocker deals in terms of both price and size.

The Chemical-Texas Commerce deal also marks the first major interstate acquisition of a Texas institution since that state's legislature earlier this year passed a measure allowing out-of-state banks to acquire Texas banks. The statute takes effect Jan. 1.

Experts in banking law said this marks the first time the spinoff technique has been used as part of a negotiated bank merger without regulatory assistance.

John D. Hawke Jr., á Washington banking attorney and former general counsel to the Federal Reserve Board, said the spinoff aspect of the deal is reminiscent of the 1984 federal rescue of Continental Illinois Corp. in that some of the burden of potential loan losses will fall on existing shareholders.

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Biggest US Bank Mergers

Acquirer	Acquired	Deal's Value
Chemical New York Corp. New York	Texas Commerce Bancshares Inc. Houston	$1.2B
Wells Fargo & Co., San Francisco	Crocker National San Francisco	$1.08B
First Wachovia Corp., Winston-Salem, N.C.	First Atlanta Corp., Atlanta	$841.7M
First Union Corp., Charlotte, N.C.	First Railroad & Banking, Augusta, Ga.	$779M
SunTrust Banks Inc., Atlanta	Third National Corp., Nashville, Tenn.	$757.5M

Deals ranked by price.

Prospects for Other Texas Banks
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Random Thoughts

By SANFORD ROSE

Marcelle Arak, a vice president of Citicorp Investment Bank, points out that the tax law is changing banl investment preferences quite dramatically. One obvious shift: away from municipals and toward mortgage-backed securities.

In October of this year, a bank purchasing a 7% muni and funding it with 6% money could earn an aftertax yield of 3.21%, assuming, of course, deductibility of 80% of the interest carrying cost. A 9% Ginnie with a yield of 9.20% would have netted an aftertax return of 1.73%, assuming the same money cost. And a treasury bond yielding 7.50% would have added only 81 basis points to the bottom line.

Under the new tax law, the municipal obviously becomes much less attractive. Since deductibility of carrying costs is gone, the bank gets to keep only 100 basis points (7% minus 6%).

By contrast, the new 34% marginal tax rate pushes up the treasury's contribution to 99 basis points — 7.50% minus 6% multiplied by one minus .34. The Ginnie, however, assumes pride of place — 9.20%

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Yanks in Europe

American bankers have been a common sight in Europe for almost as long as America has existed as a nation. The U.S. war of independence against Britain, after all, was financed in Europe, mostly in Paris and Amsterdam. The first U.S. banks to formally expand abroad came to Europe as their natural, second home. Chase Manhattan opened in London in 1887. Morgan Guaranty set up shop in the shadow of the Bank of England in 1892.

American banks in Europe are a much more potent force today than they were at the turn of the century. In major European banking capitals such as London and Frankfurt, American banks represent the largest foreign contingent. Nearly 60 American banks have a presence in London today, while just over half that many are established in Frankfurt.

More important than sheer numbers, however, is what the banks can do. With the wave of deregulation that has swept across Europe in recent years showing no signs of slackening, U.S. banks in Europe have found themselves with a plethora of new markets to exploit. They have gone aggressively into the securities business and are in the process of turning themselves into "universal banks" in the image of the big German and Swiss banks.

As such, banking developments here may be leading those in the United States. If the Glass-Steagall Act is ever abolished, what is happening here now may represent the future of commercial banking in America.

European Assets of Top 10 Banks

On Dec. 31, 1985 (In Millions of Dollars)

	Total Assets	European Assets	Eur. Assets As % of Total
Citicorp, New York[1]	173,597	33,899	19.5
BankAmerica Corp., San Francisco[2]	118,541	18,485	15.5
Chase Manhattan Corp., New York.	87,685	17,104	19.5
Manufacturers Han. Cp., New York[3]	76,526	11,812	15.4
J.P. Morgan & Co., Inc., New York	69,375	18,240	26.3
Chemical New York Corp.	56,990	7,160	12.6
Security Pacific Corp., Los Angeles	53,503	11,851	22.0
Bankers Trust New York Corp.	50,581	5,292	10.5
First Interstate Bancorp., Los Angeles	48,991	1,124	2.3
Wells Fargo & Co., San Francisco	29,429	703	2.4

European Income of Top 10 Banks

For 1985 (In Thousands of Dollars)

	Total Net Income	International Net Income	European Net Income	European Income As Percentage of International	European Income As Percentage of Total
Citicorp[1]	998,000	535,000	191,000	35.7	19.1
BankAmerica Corp.[2]	(337,215)	(420,000)	(208,000)	124.6	61.7
Chase Manhattan Corp.	564,818	194,000	41,000	21.1	7.3
Manufacturers Hanover Corp.[3]	407,475	124,000	47,000[2]	37.9	11.5
J.P. Morgan & Co., Inc.	705,400	335,400	285,100	85.0	40.4
Chemical New York Corp.	390,187	115,900	38,800	33.5	9.9
Security Pacific Corp.	322,800	67,700	N/A	N/A	N/A
Bankers Trust New York Corp.	371,248	167,000	22,000	13.2	06.0
First Interstate Bancorp.	313,056	N/A	N/A	N/A	N/A
Wells Fargo & Co.	190,034	(1,000)	1,100	110.0	1.0

Yearend 1985 data are shown for the top 10 bank holding companies in assets on June 30, 1986. Data Source: Extracted by American Banker from the banks' 1985 annual reports. A publicly-held firm is required to report its foreign activities on the basis of the domicile of the customer in the 10K Report filed with the Securities and Exchange Commission (SEC Ragulation SK). Most banks also report this information in their annual report. (1)— Citicorp's European figures include the Middle East and Africa. (2)—According to the footnotes to the table entitled "Performance by Geographic Area" on page 55 of BofA's annual report, "International amounts include the international operations of World Banking and all other profit centers." (3)— Manufacturers Hanover Corp.'s European figures include sub-Saharan Africa. N/A— Not available. ( )— Indicates loss.